

VZCZCXYZ0001
RR RUEHWEB

DE RUEHBU #1667/01 3401836
ZNR UUUUU ZZH
R 051836Z DEC 08
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 2643
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/USDOC WASHINGTON DC
RUEHC/DEPT OF LABOR WASHINGTON DC
RHMFIUU/HQ USSOUTHCOM MIAMI FL
RUCNMER/MERCOSUR COLLECTIVE

UNCLAS BUENOS AIRES 001667

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: [ECON](#) [EINV](#) [EIND](#) [ETRD](#) [EAGR](#) [PGOV](#) [AR](#)
SUBJECT: Argentina Announces Economic Stimulus Package

REF: (A) Buenos Aires 1643
(B) Buenos Aires 1443

Summary

¶1. (SBU) One week after announcing a 71 billion public works plan (Ref A), President Cristina Fernandez de Kirchner (CFK) unveiled an additional ARP 13.2 billion (US\$3.9 billion) "economic incentives" package, designed to "revive and stimulate production, investment, jobs, and consumption, and alleviate the impact on Argentina's productive sectors of the international economic crisis." Before a cast of national ministers, governors, business, finance, and labor leaders, she detailed a package of soft credits and incentives for consumers, producers and exporters. Particular targets are small- and medium-sized businesses, auto producers, farmers, and producers of household goods, with the intention of "jumpstarting industry to avoid a cooling down of the economy and more layoffs." Consumer and industrial credits are to be financed by private banks that will bid for and on-lend subsidized GoA deposits sourced from recently nationalized private pension funds and from the GoA social security system. Businesses accessing these credits must agree to forego layoffs of permanent employees. The President also announced five percentage point export tax reductions for wheat and corn. While the GoA is following the Keynesian lead of many nations in unveiling stimulus packages, local analysts caution that, by using nationalized pension fund resources to offer subsidized consumer and industrial credits, the GoA is confirming earlier suspicions that its focus is less on establishing a foundation for long-term growth and more on pump priming with an eye to October 2009 mid-term elections. End Summary.

Package Outline

¶2. (U) CFK, in the presence of an all-star cast of ministers, governors, and business and labor leaders, unveiled her second "economic incentives" package in as many weeks. This package follows CFK's November 25 announcement of an ambitious 71 billion peso (US\$ 21 billion) public works program and tax incentives to foster job creation and encourage the repatriation of funds held by Argentine individuals and companies abroad (ref A). CFK emphasized that the goal of this further initiative is to fortify the two pillars of the GoA's economic model, consumption and exports. She said the program will "stimulate production, investment, jobs, and consumption," alleviate the effects of the international economic crisis, and "rebuild capital markets to provide greater access to credit for productive sectors."

¶3. (U) Full details of this stimulus package are yet to be released, but from CFK's speech it appears the GoA's idea is to deposit a portion of national pension fund assets in the financial system at

an 11% rate (significantly below current market deposit rates in the 18% range), allocating them among private banks via an auction mechanism that favors bank that commit to charge the lowest interest rate to borrowers. The president announced that the US\$ 3.9 billion package would be allocated as follows:

-- Consumer loans: US\$1 billion in consumers credits for the purchase of consumer white goods, such as refrigerators, air conditioners, and washing machines. Individual credits will be for up to \$1,500 with a target of 700,000 individual loans.

-- Car purchases: To address a precipitous drop in new cars sales over the past two months, a plan to stimulate the sale of 100,000 new low-end cars to first time purchasers via US\$ 912 million in financing support.

-- Small and medium-sized enterprises: \$882 million for pre-export financing and working capital for smaller companies.

-- Industry and manufacturing financing: \$368 million for pre-export financing and working capital.

-- Agricultural sector support: \$500 million for pre-export financing and working capital.

Strings attached - no layoffs

¶4. (U) In the case of credits for industry and SMEs, the plan comes with a condition: companies tapping these credits must forego layoffs of permanent employees. CFK said: "To access any of these credit lines...companies must agree to maintain their workers. Any company that fires any employee will be not able to access this type of financing. What is important is to preserve jobs."

Agriculture Sector Stimulus

¶5. (U) The President also announced cuts in the export tax rate on wheat and corn by five percentage points to 20% and 23% respectively to encourage production in the face of lower anticipated 2008/9 season yields. Analysts report that the anticipated cost of export tax revenues forgone will be in the ARP 500 million (US\$150 million) range. She also announced new "Wheat Plus" and "Corn Plus" plans: for every million tons produced above an annual production average, the GOA will further lower export taxes by an additional one percentage point.

Criticizing International Economic Analysts

¶6. (SBU) CFK began her speech with harsh criticism of "consultants and international organizations" who disparage the GoA economic model. After listing the GoA's economic accomplishments in recent years (i.e., high growth, falling unemployment and poverty), she said that "we were dedicating ourselves to growth when this crisis hit, and this obliges us to announce this plan to face this crisis, which was unthinkable for the big rating agencies and economic analysts."

Initial reactions mixed and measured

¶7. (SBU) In subsequent interviews with local media, the presidents of the powerful Argentine Industrial Union (UIA) and Argentine Banking Association (ADEBA) both expressed support for the initiative. UIA President Juan Carlos Lascurain said the measures "are important for the productive sectors; for our businesses, we have to do our part to maintain employment." ADEBA President Jorge Brito said the measures "will reactivate the economy in two ways: via credit and consumption on one hand, and production on the other." Meanwhile, Agriculture Federation President Eduardo Buzzi called the measures "insignificant," and Rural Society President Alfredo de Angeli called a five percentage point export tax

reduction "a joke." Largest circulation daily Clarin reported heated debate in the president's circle over the political cost of lowering wheat and corn tariffs following the GoA's bruising early 2008 battle with the agricultural sector over a variable export tax proposal. Media reports that the President of Argentine Confederation of Medium-sized Enterprises (CAME), Osvaldo Cornide, said that the plan "will permit Argentina to weather the storm," but also said that it will depend on how it is applied."

18. (U) Fiat Argentina President Cristiano Rattazzi also expressed support. Regarding the sensitive issue of auto sector employment, he said that "for now" the local auto industry, despite some recent limited layoffs and reduced hours, will be able to maintain the general level of employment -- as long as there is not a major decline in sales. On the same day, the auto manufacturer's association ADEFA announced that November 2008 was the worst month since 2003 for the auto sector, with a fall in production (-28.1%), exports (-24.6%) and sales (26.1%) in comparison with November 2007.

In one of the first comments from foreign analysts, Goldman Sachs took a more negative view, predicting the measures will not be sufficient to avoid a recession in 2009, and pointing out that they do not deal with the main challenges facing the country: "uncertainties and concerns related to the exchange rate outlook, the inflation outlook, the outlook for public finances and the overall business environment, including the government's commitment to respecting property rights and maintaining a stable set of rules of the game."

Comment

19. (SBU) This announcement of the second phase of the GoA's stimulus package comes as the Argentine economy is showing increasing evidence of a sharp slowdown. The \$4 billion economic stimulus package totals a little over 1% of GDP and effectively represents a re-deployment of nationalized private pension fund resources that had previously supported similar consumer and industrial financing. While it is far too early to know what economic impact, if any, this initiative will have, the GoA is following the Keynesian lead of many nations around the world in unveiling stimulus packages to boost consumer and industrial confidence. Local analysts caution that, by using nationalized pension funds to offer subsidized consumer and industrial credits, the GoA is confirming earlier suspicions that its focus is less on establishing a foundation for long-term growth and more on pump-priming with an eye to October 2009 mid-term elections -- and doing so at the expense of future pensioners.

KELLY